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REGIONAL, SUBREGIONAL AND INTERREGIONAL ECONOMIC COOPERATION AND INTEGRATION AMONG DEVELOPING COUNTRIES:

EXCHANGE OF EXPERIENCES AMONG GROUPINGS OF DEVELOPING COUNTRIES

An evaluation of the ASEAN experience

Report by the UNCTAD secretariat

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Abbreviations

AADCP	The ASEAN-EC Agriculture Development and Coordination Programme
ADPC	ASEAN Agriculture Development and Planning Centre
AICs	ASEAN Industrial Complementation Schemes
AIJVs	ASEAN Industrial Joint Ventures
AIPs	ASEAN Industrial Projects
AJDF	ASEAN Japan Development Fund
ARSPP	ASEAN Regional Studies Promotion Programme
ASEAN	Association of South East Asian Nations
BBC	ASEAN Brand to Brand Complementation Scheme
CACH	Central American Clearing House
CEPT	ASEAN Common Effective Preferential Tariff
CTE	US-ASEAN Centre for Technology Exchange
EEC	European Economic Community
EFTA	European Free Trade Area
GSP	Generalized system of preferences
NIEs	Newly Industrialized Economies
OECD	Organisation for Economic Cooperation and Development
PITO	Agreement on ASEAN-US Private Investment and Trade Opportunities
PLANTI	ASEAN Plant Quarantine Training Centre and Institute
PTA	Preferential Trading Arrangements under the ASEAN
UNDP	United Nations Development Programme
USAC	US-ASEAN Council for Business and Technology Inc.
WACH	West African Clearing House

Chapter I

INTRODUCTION

1. This report is part of a series which is intended to analyse some selected integration experiences within different regional groupings of developing countries with a view to drawing some lessons that may be of benefit to other economic cooperation and integration groupings of developing countries. Such an approach in support of regional economic cooperation has certain advantages, among which are the following:

(a) Firstly, it encourages self-reliant solutions through a participative approach based on mutual sharing of development experiences. It is likely to generate a readiness to learn, improve, and adapt in the integration groupings of developing countries;

(b) Secondly, while the experiences of the integration groupings of developed countries (EEC, EFTA) may be of some interest to developing countries, the economic groupings of developing countries and their member States are in general more likely to benefit from the experiences of other developing countries whose efforts to deal with their growth and development problems are not a matter of ancient history and vis-à-vis which their development gap is not too wide;

(c) Thirdly, the sharing of experiences could generate indigenous research work and activities appropriate for each subregional grouping, so as to achieve some specific and desirable development goals;

(d) Moreover, in addition to the direct bilateral support from Governments and institutions to individual countries, a regional approach as pursued in ASEAN has the merit of enabling several countries within a region/subregion to seek the international community's support for their common developmental goals. Similarly, under a regional approach, major projects of regional interest could be promoted with more efficient use of financial resources; groupings and their secretariats may have, in certain specific cases, greater advantage in proposing development solutions as compared to the national governments; infrastructural programmes to develop transport and telecommunication have better economies of scale within regional context; and the momentum of development is more likely to be built up when a broad range of activities are launched simultaneously in several countries within the same region.

2. The choice of the ASEAN region as a starting point for this exercise has some substantive justifications, such as: (a) the rapid pace of economic growth in the ASEAN countries (except in the Philippines) for a long period from 1965 to 1985. The ASEAN economies, despite the commodity-related setbacks during the recession of the early 1980s, resurged and are currently enjoying healthy rates of growth; they have outperformed not only the developing countries but even the industrial market economies in the last two decades; (b) resource-based economies in ASEAN could serve as potential models for similarly endowed developing countries; (c) ASEAN countries have succeeded in expanding their trade and investment links with the North - links which are so much lacking in the rest of the developing world; (d) the export-led growth of the ASEAN economies as an alternative model to other developing economies

which traditionally followed import-substitution policies; and (e) the dynamic ASEAN enterprise sector which as a model has a good potential to be matched elsewhere.

3. This report describes those integration experiences within the ASEAN region that could be usefully transposed to other economic integration groupings. This new approach may well launch a process of interaction between the groupings of developing countries through mutually instructive seminars, symposia, and training programmes.

4. From the ASEAN integration experience, this report discusses the themes considered most appropriate and relevant for other regional/subregional settings. ASEAN trade liberalization and preferential trade arrangement (PTA), industrial cooperation, investment incentives, infrastructural supportive policies and research in support of integration are very briefly discussed below (chapter II). These are more or less conventional integration themes that are to be found in one form or another in other integration groupings. Probably the real innovative element of the ASEAN integration revolves around the ASEAN "Dialogue Partners", such as the United States of America, Japan, EEC and other developed and developing countries. Given the growing contributive role which the <u>developed</u> countries could play in support of regional cooperation - a fact which is increasingly realized even within OECD - this feature of "Dialogue Partners" which is so well developed in ASEAN has been accorded a distinctly separate treatment in this paper. This could serve as a useful point of reference for defining and amplifying similar relationships of developed countries with the regional cooperation and integration groupings of developing countries. A whole chapter (chapter III), therefore, has been devoted to discussing that particular theme, following which is a narrative on the various market-oriented and pragmatic policies adopted by most of the ASEAN countries which favoured growth and competition and helped their integration within the global economy (chapter IV).

Chapter II

CONVENTIONAL ELEMENTS OF THE ASEAN INTEGRATION PROCESS: A BRIEF ANALYSIS

5. Launched in 1967, ASEAN, in addition to its political goals, was intended "to accelerate economic growth" and to achieve this, inter alia, through (i) mutual cooperation in trade, industry, technology, commodities, services, infrastructural development, and (ii) co-operation with its extra-regional "Dialogue Partners". In pursuing their mutual co-operation objectives, the ASEAN countries, inter alia, agreed upon trade liberalization through an agreed annually phased programme of ASEAN Preferential Trade Arrangement (PTA) and Industrial Co-operation through Industrial Projects (AIPs), Industrial complementation schemes (AICs), Industrial Joint Ventures (AIJVs). ASEAN economic co-operation covered also other sectors such as research, services and infrastructural development. These conventional trade and industrial cooperation and integration instruments have not been eminently successful. The more noteworthy contributory factors to the integration and development in the region were the enlightened liberalized policies of the ASEAN member States which favour freer movement of factors intraregionally as well as from extra-regional sources. Those policies provided improved infrastructural framework to facilitate economic linkages, encouraged local and foreign investments, emphasized the services sector as a contributor to growth, evolved greater ASEAN identity through intraregional mobility of people. The interplay of those favourable policies was largely inspired by the systematic research into different economic policies and instruments for national and regional development which is constantly pursued in different institutes of the ASEAN region.

A. Trade Liberalization: The ASEAN Preferential Trade Arrangements (PTA)

6. The ASEAN trade liberalization programme is more instructive on account of its shortcomings. The absence of complementarities among the ASEAN economies with similar commodity endowments was the basic drawback in the ASEAN region. This was further complicated by the half-hearted trade liberalization approach adopted which was on a product-by-product basis with extensive exclusion lists, had insufficient preferential margins and restrictive rules of origin, and lacked standardized customs regulations and procedures and any in-built trade dispute settlement machinery. Other shortcomings of the ASEAN PTA were: the lack of a periodic assessment of results of the PTA, problems relative to differential liberalization programmes favouring less advanced economies as well non-tariff barriers impeding the implementation of the tariff liberalization programmes. In that situation it is not suprising that the ASEAN PTA's contribution to the intraregional ASEAN trade was only marginal. At any rate the intra-ASEAN trade remained modest, ranging between 5 and 7 per cent of the total ASEAN trade. Any intra-trade increase that did occur was due rather to the MFN liberalization policies and the dynamic growth factor in the major economies of the ASEAN region.

7. ASEAN's experience of trade liberalization through PTA has made it clear that a half-hearted trade liberalization programme is likely to have only modest results. The bureaucratic red-tape is likely to further complicate matters. Consequently ASEAN, at its latest Summit Level Meeting, decided to create an ASEAN Free Trade Area (AFTA) within 15 years. The main mechanism

for achieving this goal is the Common Effective Preferential Tariff (CEPT) Scheme which, beginning in January 1993, will be steadily reduced to a range of 0 to 5 per cent by the year 2008 for manufactures, capital goods and processed agricultural products. 1/ Trade in services and agricultural products are not subject to the CEPT Scheme.

B. Industrial co-operation

8. The ASEAN-sponsored industrial cooperation took place within the framework of three instruments, namely ASEAN Industrial Projects (AIPs) ASEAN Industrial Complementation (AICs) and ASEAN Industrial Joint Ventures (AIJVs). The AIPs are large-scale government-to-government projects, while AICs are designed to avoid duplication in industrial capacities by assigning specific industrial processes or components to each ASEAN country on a time-bound exclusive basis with a preferential regime in the entire ASEAN market, and AIJVs are government-approved private sector ventures, designed as an improvement on the AICs. Some specified investment incentives such as margin of tariff preferences (MOPs) as well as provisions on equity participation favourable to encourage intraregional joint ventures are also built into these ASEAN industrial cooperation programmes. The three schemes of industrial cooperation within ASEAN performed differently. The AIPs, with large projects, took a long time to materialize and underwent different reconsiderations. Original allocation of plants was also changed. Therefore the AIP scheme could be implemented only partially. 2/ Even in the case of the AICs the progress was not as expected, although some positive results were achieved in the ASEAN Brand-to-Brand Complementation (BBC) in the automotive industry. BBC schemes envisage manufacturing different components of a vehicle in different countries. ASEAN has approved BBC schemes for two types of passenger cars (Galant, Lancer) two models of light commercial vehicles and a truck in which 2 or 3 of the ASEAN members are participating countries. Similar BBC schemes by Volvo (Mode/740, with Malaysia and Thailand participants) and Mercedez Benz (passenger cars, commercial vehicles and gear boxes) are reported to have been approved. From among the industrial co-operation schemes of AIPs, AICs and AIJVs, the latter (i.e. AIJVs), involving medium and small-level industrial schemes, were relatively more successful. The relative success of AIJVs is attributable in no small measure to the greater involvement of the private sector and their relative flexibility which was not possible in the other two ASEAN schemes. However, even the AIJVs have their own shortcomings.

C. Improvement of the investment climate

9. To promote and protect intra-ASEAN investment, the ASEAN countries since 1976 have an Agreement providing (i) most-favoured-nation treatment to intra-ASEAN investment; (ii) safeguards against nationalization; (iii) adequate compensation against expropriation; (iv) generous repatriation of profits, dividends, interests, royalties, technical fees and other income; (v) repatriation of capital and proceeds from total or partial liquidation of any intra-ASEAN investment. Moreover, separate arrangements on avoidance of double taxation and involving regional financial institutions in supporting regional industrial and commercial endeavours were also included. Besides facilitating intra-ASEAN investment, all the ASEAN members adopted several incentive packages to attract more foreign investments from any available source. As a result, the largest country in the ASEAN region, namely

Indonesia, attracted foreign investments of nearly $15 Billion over two decades (1967-1987) from diverse sources. The foremost among them were Japan, Hong Kong, the former Federal Republic of Germany, United States of America, Netherlands, United Kingdom, Taiwan, Province of China, and Singapore. Investment incentives included provision for foreign ownership, for export-oriented foreign investment, permission to export-oriented firms to distribute domestically, and allowing joint ventures to participate in government exports.

D. Infrastructural and resource-based cooperation

10. Other important ASEAN integration efforts related to their efforts towards joint resource mobilization and intra-ASEAN infrastructures. For instance, the "ASEAN Minerals Cooperation Plan" was designed to develop downstream industries. Similarly, different ASEAN subsectoral programmes in energy cooperation, including those in petroleum security, promoted efficient use of coal in the subregion and the gas pipeline projects across the member States also proved useful for the subregion.

11. The ASEAN initiatives in shipping and ports included those on bulk pool system, point-to-point shipping services, foreign booking and cargo consolidation centres. In posts and telecommunications, inter-country remittance services made possible an efficient money order service and telegraphic money order services. An ASEAN optical fibre submarine cable network was one of the projects in the telecommunication field. Similarly, a multimodal project to strengthen the existing modes of transportation and the establishment of new road, rail, sea, ferry and air links was initiated with the assistance of the World Bank. 3/

E. Finance and banking

12. Under the ASEAN central banks and monetry authorities, the ASEAN SWAP Arrangement, since 1977, has been providing stand-by credit to ASEAN member countries. With a capacity to extend credit up to US$ 200 million, this Arrangement survived unscathed during the liquidity crisis of the 1980s. Arrangements like the Central American Clearing House (CACH) and the West African Clearing House (WACH) were virtually paralysed due to the currency crunch of the 1980s, whereas under the ASEAN arrangement credits of about US$ 45-65 million were provided between 1985 and 1987. This was due to the resilience and strength of most of the ASEAN economies rather than to any in-built institutional strength of the ASEAN SWAP arrangement.

F. Research

13. The research activities in support of the integration process in the ASEAN region are highly developed and in wholesome competition with each other. The integration schemes relevant from each country's viewpoint as well as from a regional angle are pursued in a systematic and scientific way. This research has proved to be an important backstopping activity which provides long-term perspectives to the development needs of the region and helps them to be translated in the national and regional programmes and policies and provides a basis for an interlinkage and sharing of information.

Chapter III

ASEAN EXTRAREGIONAL COOPERATION WITH THE "DIALOGUE PARTNERS"

14. The process of establishing "dialogue partner" relations started informally in 1972 with EEC when ASEAN was still in its formative years. Subsequently, formal relationships were established with Australia (1974), New Zealand (1975), United States of America, Japan, EEC (1977), as well as UNDP (1976). With EEC (1980) and Canada (1981), the links were further strengthened by the signing of "Comprehensive Cooperation Agreements". Those dialogue relationships cover both political and mutual economic cooperation.

15. In selecting their dialogue partners, the ASEAN countries were in no small measure influenced by their traditional trade links. The overall share of the current dialogue partners in the ASEAN export portfolio has traditionally ranged between 50 to 60 per cent. Japan has a leading share (20 per cent or above) followed by the United States (15-22 per cent), EEC (10-15 per cent), Australia (around 2 per cent), Canada (0.50 to 1.0 per cent) and New Zealand (0.25 to 0.75 per cent). 4/

16. Initially, this platform was used to seek greater market access for ASEAN exports. Later, in keeping with the growing economic interaction between the two sides and the international and regional developments, the agendas of these dialogues evolved and matured. Currently, the mutual cooperation goes beyond the purely trade field to cover development cooperation including, investment and industrial cooperation, technology transfer, human resource development, financial and technical assistance.

17. The single most important feature of the ASEAN countries' experience is their relationship with their dialogue partners. It has a great potential to be matched in specific African situations in a systematic manner through consultations and negotiations at the official, Ministerial and Head of State levels. The dialogue partners relationship, albeit in a different form, has already been usefully employed within the South African Development Cooperation Conference (SADCC), which tends to reinforce the desirability of its being tried elsewhere in Africa.

18. Besides the ASEAN dialogues with the developed countries, ASEAN has also launched similar initiatives with developing countries and groupings of developing countries 5/ since 1978. So far, the Republic of Korea is the only developing country with which ASEAN has established a dialogue relationship.

A. ASEAN-EEC dialogue partnership

19. Since EEC is an important market for the ASEAN countries' primary commodities and manufactures and a potential source of direct investment, their dialogue relation helped the process of industrialization in the ASEAN region. Similarly, the European Community offered a model in regional cooperation, some aspects of which could be emulated in the ASEAN context. This was in keeping with the EEC's declared support to foster regional cooperation which materialized in its assistance to several of ASEAN's regional development programmes.

20. In terms of the percentage distribution of imports from EEC, it has been improving its position in competition with the United States of America and Japan: thus, from 12.4 per cent in 1982, the EEC's share improved to 14.68 per cent in 1988. 6/ In the same way, there has been a significant growth in the exports to EEC, i.e., from 10.25 per cent in 1982 to 14.4 per cent in 1988, while Japanese market shrank from 29.01 per cent in 1982 to 19.13 per cent in 1988. 7/

21. The structure of mutual trade between the two regions has also changed over time. The process of export-oriented industrialization in ASEAN helped improve exports of manufactured goods from 23.5 per cent of its exports in the EEC in 1973 to 45.8 per cent in 1984. However, EEC has not been able to match the performance of Japan in investment in the ASEAN countries. The enlargement of the Community to include Spain and Portugal seems to have boosted intra-EEC investments at the expense of "outsiders" like ASEAN.

22. The areas covered in this dialogue include market access issues (GSP, Uruguay Round), economic, financial and industrial cooperation, human resource development, science and technology programmes, increasing trade and investment flows, promotion of tourism, encouraging participation of the private sector in mutual cooperation between the partners, focusing on assistance to the poor segment of the rural population, giving special attention to the participation of women in the development process, and environmental protection. In the area of development cooperation, the ongoing regional cooperation projects are reviewed and new project proposals are taken up to seek technical assistance and financing. Recently, two such regional projects became operational, namely, (a) The ASEAN-EC Aquaculture Development and Coordination Programme (AADCP), to improve the productivity know-how and technology transfer in fish-farming; and, (b) ASEAN-EC Industrial Standards and Quality Control Programme. The EEC GSP scheme as well as the market access questions are tackled by an expert group, the "ASEAN-EC Joint Trade Expert Group". In the context of the European Single Market 1992, it has been agreed to hold sector-specific workshops on the impact and opportunity of the Single Market on ASEAN's trade and investments with the EC.

23. Investment seminars and missions are also organized. The private sector, since the inception of the ASEAN-EEC Business Council in 1983, is making important contributions for cooperative ventures. Other known projects are (a) ASEAN Trade Promotion Programme for increasing ASEAN Exports; (b) ASEAN Timber Technology Centre, Kuala Lumpur; (c) ASEAN-EC Energy Management Training and Research Centre, Jakarta; (d) Joint Investment Committees (JIC) in ASEAN Countries; and, (e) Grain Post-Harvest Technology.

B. ASEAN-Japan dialogue partnership

24. Japan is the leading trade partner (the largest single export market for ASEAN as a whole) for ASEAN, while ASEAN has become the third largest trading partner for Japan after the United States and the European Community. In terms of foreign investment, Japan ranks first in all the ASEAN countries.

25. In the early 1950s and part of the 1960s, Japan was emerging as a regional trade centre in South-East Asia and the Far-East. A number of developing countries of the region, including those of the ASEAN region, were largely its satellites. The commodity boom, led by the oil prices in the

1970s, brought spectacular growth rates in the ASEAN region and ASEAN exports to Japan grew at an annual rate of over 25 per cent. The commodity composition of trade between the two regions which evolved during this period was based on complementarity and vertical specialization corresponding to their respective industrial structures. Their trade links were production-induced, their economic partnership a natural corollary. The formal Japanese-ASEAN dialogue partnership, when it came about in 1977, was thus a continuation of a phenomenon which had existed historically since the early 1950s. In the early 1970s ASEAN-Japanese discussions on the question of synthetic rubber and its adverse impact on ASEAN's export of natural rubber provided the initial start which gradually broadened in scope and was eventually institutionalized as the ASEAN-Japan Forum in 1977.

26. Since its inception, the ASEAN-Japan dialogue has brought about several positive results, some of which are enumerated below:

(i) Establishment of the Fukuda Fund of US$ 1 billion providing soft loans to finance ASEAN Industrial Projects (AIPs);

(ii) Establishment of the "ASEAN Promotion Centre on Trade Investment and Tourism" to promote ASEAN exports to Japan, and Japan's investments and tourists in ASEAN;

(iii) ASEAN Human Resource Development Project to set up HRD Centres in five of the ASEAN countries;

(iv) ASEAN Poultry Disease Research and Training Centre;

(v) Funding by Japan of an ASEAN Regional Studies Promotion Programme (ARSPP) - which, inter alia, held, in 1987, a "Symposium on ASEAN-Japan Economic Relations".

(vi) ASEAN Youth Friendship Programme for the Twenty-First Century to promote people-to-people contacts and cultural exchanges.

27. More recently this important dialogue partnership resulted in Japan's agreement to the ASEAN proposal for the participation of the private sector in the 11th and 12th ASEAN-Japan Forums, the latter being held in Tokyo in September 1990. Both sides made proposals and adopted measures effecting trade and investment for consideration by ASEAN and Japan to be replied to by the 13th ASEAN-Japan Forum. Earlier in the 12th Forum, ASEAN and Japanese chambers of commerce and industries presented their respective papers. This was a departure from the earlier pattern of exclusively intergovernmental dialogues in those forums. It is expected to foster intra-private-sector dialogue and cooperation between the two sides.

28. In December 1987, Japan had undertaken to extend financial cooperation of US$ 2 billion over a period of three years for the promotion of the private sector development of each ASEAN country and to promote regional cooperation among the ASEAN countries. The activities of, and progress under, the ASEAN and Japan Development Fund, mainly intended for fostering private enterprises in the industrial sector, is therefore reviewed each year by the ASEAN-Japan Forums. Under this Fund, Category A (regional AJDF projects) and Category B

(national projects) are provided. It is also envisaged that Japanese investment in the ASEAN AIJVs will be financed under this Fund.

29. Japan is the most highly developed country in the entire Asian Pacific region. Its enormous balance-of-payments surpluses are already being reinvested throughout the region, of which the ASEAN region is an important beneficiary. Similarly, in the wake of its process of industrial restructuring favouring high-technology and knowledge-intensive areas and phasing-out programmes of its "sunset industries", regional cooperation and economic-cum-industrial interdependence have evolved. The immense potential of Japan, as a lead-economy in the region, is being used to the advantage of the ASEAN region, along with NICs, for imparting growth impulses in ASEAN through capital injection, introduction and improvement of new technologies and as an increasingly important market for the ASEAN products.

C. ASEAN-United States of America dialogue partnership

30. The United States-ASEAN dialogue, evolving since 1977, has from the United States side been largely politically motivated, while ASEAN, as recipients, deem it important for the inflow of technical assistance. The issues discussed are largely similar to those encountered with EEC and Japan. The development assistance obtained by the ASEAN countries has been in the form of establishment of several institutions such as the ASEAN Agricultural Development and Planning Centre (ADPC) in Thailand, the ASEAN Plant Quarantine Training Centre and Institute (PLANTI) in Malaysia, the United States-ASEAN Centre for Technology Exchange (CTE), New York, with branches in the ASEAN countries. Similarly, for human resource development, scholarships, fellowships and research programmes through institutions in ASEAN are provided by the United States.

31. The ASEAN-United States cooperation programme increasingly emphasizes ASEAN regional economic growth through enhanced trade, investment and technology transfer. The most significant evolution in that context in the ASEAN-United States dialogue is the growing involvement of the private sector. An Agreement on ASEAN-United States Private Investment and Trade Opportunities (PITO) was signed in April 1990. Under the PITO project, financial assistance of US$ 13 million over a period of six years from US-AID has been earmarked. The project is intended to establish a mechanism to promote expanded private sector trade and investment between ASEAN and the United States of America. A PITO Secretariat Office and national offices for trade and investment promotion have been established in the respective national chambers of commerce and industry. The United States office is based in Washington D.C. at the Headquarters of the United States-ASEAN Council for Business and Technology Inc. (USAC). The PITO project covers several activities, the most important of which are enumerated below:

(i) Trade and investment promotional missions, exchange of business executives, seminars on environmental and pollution control, technologies and industries, agribusiness and food-processing industries. An agribusiness mission by eight United States companies from Iowa to Singapore, Malaysia and Thailand resulted in both more trade opportunities and possibilities of manufacturing investments by four United States companies in the relevant ASEAN countries;

(ii) Policy research and problem resolution on trade and investment;

(iii) Provision of information on United States technology, standardization and certification requirements to ASEAN businesses through Technonet Asia;

(iv) Supporting management and technical skills needed to create and sustain higher valued goods and services.

32. Various other mechanisms have also been established for effective dialogue relations:

(i) An ASEAN-United States Business Council co-chaired by respective representatives of chambers of commerce and industries;

(ii) Establishment of an intergovernmental Trade and Investment Cooperation Committee to monitor and review matters pertaining to trade, investment, transfer of technology, human resource development. By mutual agreement, representatives of the private sector of each party can also be invited to the Forum;

(iii) A monthly United States-ASEAN Business Report;

(iv) Establishment of an ASEAN Equity Fund. This Fund will have a capital of US$ 200 million. It will be privately managed and will provide equity and quasi-equity for new projects in the ASEAN region with United States involvement.

Chapter IV

ASEAN MARKET-ORIENTED NATIONAL POLICIES FAVOURING GROWTH AND COMPETITION

33. The various conventional integration instruments may also have contributed in different degrees to mutual cooperation among the ASEAN economies. Equally, or probably more, significant was the ASEAN tradition of adopting several similarly oriented macroeconomic policies induced by a common way of thinking and supported by the extensive research activity which through similar perceptions of development issues helped evolve identical policy responses. Those timely policies became important growth-inducing factors and helped all the ASEAN economies as a group to perform so well both in good and as well as adverse economic times. For a decade and a half after the mid-1960s (1965-1980) when the world went through an easy period of growth, the size and momentum of growth in the ASEAN region was at a much faster pace. On the other hand, during the lean years after 1980, the ASEAN economies, reflecting the general trend did slow down, yet the magnitude of erosion in their growth was of much lesser order. A study of the ASEAN research material and discussions held with the chambers of commerce, research institutes and the ASEAN government officials reveals that this tremendous resilience in the ASEAN economies was in no small measure due to the following distinctive policies which most of the countries members of that region adopted.

A. Deregulation

34. The deregulation policies adopted in the ASEAN countries, including financial deregulation, had a favourable impact on the fund mobilization for financing their private investments. The amount of loans, advances and investments made by ASEAN deposit money banks between 1981 and 1985 more than doubled from US$ 458.9 billion to US$ 990.2 billion. This was despite the adverse impact of the worldwide recession and the declining prices of oil, one of the most important export commodities for three of the ASEAN countries. For instance, under the Indonesian deregulation policy, the Government imposed limits on interest rates, restricted areas of business and withdrew some other features of protection in June 1983. This encouraged greater competition among the private banks, who instead of depending on liquidity credits from the Bank of Indonesia, financed their credit operations with funds mobilized from the public. This resulted in intense intra-bank competition, attractive interest rates and better services which helped stimulate deposits. In the Philippines too, the financial deregulation policies of the early 1980s, induced savings during 1980-1983. But, unfortunately, substantial fiscal deficits followed by the balance-of-payments crisis in 1983 and the political difficulties thereafter did not allow the process to gain enough momentum for it to be successfully converted into investments. The banking and financial policies of Malaysia and Thailand are also essentially market-oriented. However, when they introduced priority sector lending, it created some distortions in their banking sector which later necessitated some corrective policies. Singapore, in any event, follows liberal market-economy policies.

B. Emphasis on services as generator of growth and stability

35. Within ASEAN as a whole, the services industry has been an important stimulant and generator of growth for the rest of the economy. A study of the

policies supporting the development of the services sector in the ASEAN region could be highly instructive.

36. Experience has shown a comparatively greater resilience of the services industries during different economic periods. Studies done in the ASEAN region have also established the comparative stability of services during massive and prolonged economic slow-downs. The services sector proved also to be an important support and contributor of inputs to agriculture and industry, making the latter internationally more efficient and competitive. In the area of trade in services the ASEAN experience also shows signs of dynamism. As a group the ASEAN region during the 1980s, suffered overall deficit in the services sector. Between 1981-1987 their overall global annual rate of import of services was nearly US$ 27.4 billion. Their exports of services, however, was US$ 20.6 billion annually. Thus ASEAN suffered an annual deficit of around US$ 7.4 billion. Singapore was the only ASEAN country with substantial surpluses in trade in services while Indonesia, Thailand and the Philippines remained in deficit throughout. Yet services are playing an increasingly important role in ASEAN. In 1987, over two-fifths of the ASEAN output was derived from the services activities. On average the pace of their growth since 1965 has been exceeding the growth rates of the OECD countries. In 1981 the ASEAN services sector provided 30 per cent of total employment which by 1985 had reached 34.5 per cent. In Singapore, the services leader in the region, by 1987, three quarters of all jobs were attributed to the services industry.

C. Direct foreign investment from "Partners in development": United States of America, EEC, Japan and NIES

37. As discussed at length before, from among the ASEAN integration instruments, this particular feature has procured several advantages to the ASEAN countries. In particular, it has facilitated direct pragmatic business and investment relationships between the ASEAN countries and the United States of America, EEC, Japan, as well as NIES and other countries which helped them to integrate into the global economy with a competitive edge. Thailand, Malaysia and Indonesia are beneficiaries of this phenomenon of induced growth. For example, Indonesia, the largest country and the least advanced among them, with the assistance of Japanese Sogo Soshas, initially began by exporting semi-processed products to Japan. Later on, Indonesian exports of more processed goods followed. Similarly, some of the Japanese component and assembly industries are being relocated in Indonesia for export. Along with and even in competition with the Japanese, the NIES with higher levels of technologies and their capital surpluses are investing in the ASEAN and other Asian countries. Thus the generous and stable policies have stimulated investments in the ASEAN economies, largely through the MNCS generated intra-firm trade, and helped integration in the ASEAN member States.

D. Tradition and policies favouring savings and investments

38. One of the most striking features within the ASEAN region is the high degree of propensity to save which has continued unabated since the mid-1960s. This enabled those countries to maintain high domestic investment rates, and growing exports, thus expanding and diversifying industrial capacities with a consequential shrinkage of the agriculture sector in their domestic outputs. Agriculture did grow, but it was outpaced by industry. How far this is a part

of the ASEAN mentality and to what extent the macroeconomic policies lent support to this saving-investment syndrome deserves to be analysed at length so as to have some demonstrative effect on other countries and groupings.

E. Supporting policies favouring intraregional mobility of people: ASEAN identity

39. The intraregional and national policies in support of transport, particularly aviation, and tourism has facilitated contacts among people in the ASEAN region and with people outside the region, particularly Japan and NIES. This facilitated business and investment relationships.

F. Intraregional infrastructure and telecommunication

40. The ASEAN policies in favour of infrastructure have been a highly important factor in facilitating intraregional movement of different factors of production utilizing complementarities and making investments.

G. Close relationship between the private sector and Governments

41. Following the Japanese model, Singapore, Thailand and Indonesia, in evolving their Governments' economic policies, laid emphasis on their private sectors and taken them into their confidence. As the situation permitted, private-sector Government mutual consultation was institutionalized, which favoured the adoption of realistic and pragmatic economic policies. Similarly, the more important ASEAN Governments consciously adopted measures and policies surrendering their control and facilitating the emergence of a vibrant entrepreneurship.

H. Entrepreneurship and business ethics

42. The ASEAN region is fortunate in having the industrious entrepreneurship of the Chinese in the region, which has provided a nucleus for stimulating national economies. Their presence in different countries, with their special business ethics and mutual confidence, has induced intercountry linkages. However, to some extent this has also created concentration of wealth and monopolies. The community originating from the Indian Subcontinent also plays a similar yet much more limited role. No conscious policies to support and foster any one business community are known to have been adopted within the ASEAN countries. However, there is no antipathy towards them either.

Chapter V

CONCLUSIONS

43. The overall success of the ASEAN economies is widely known to be attributable to their export-led industrialization and investment policies. This phenomenon was initiated and sustained in response to the growth impulses provided from Japan and other important economies in the region. A lack of major successes in the conventional ASEAN integration process led the ASEAN membership to move towards greater liberalization and market exposure so as to achieve optimum competitiveness in an increasingly globalized market. Consequently, the ASEAN countries have decided to move towards a free trade area and to continue their liberal investment regimes. Government-sponsored industrial cooperation had limited results. Greater emphasis is now being given to improving the investment climate to attract intra-ASEAN capital. This has inspired greater confidence in the ASEAN enterprise sector and generated an important intraregional investment process with its own market-led dynamics.

44. The dialogue relationships of the ASEAN countries have provided them with important institutional mechanisms for redressing their trade problems, deliberating upon their development needs, securing instruments and obtaining financial, technical and other assistance or support. This has been a highly valuable experience for both the Government and the private sector.

45. The ASEAN experience shows that the intraregional integration process is not a panacea for the problems of development and growth. Regional cooperation and its accompanying institutional structures do indeed have some important merits - political, social, cultural, economic and otherwise - but the real solutions lie in adopting national policies corresponding and responsive to prevailing economic realities. Their regional structures helped the ASEAN countries to share their perceptions of the international market and to react in a largely similar manner. It was therefore no coincidence that their national policies, discussed in chapter IV, bear so many similarities to each other. Their exposure to their "dialogue partners" helped them perceive in time the changing global economic realities and to adapt their policies accordingly.

46. In this perspective, the ASEAN integration process as well as the national policies of its member countries, are seen to be highly instructive for other regional economic cooperation and integration groupings of developing countries.

Notes

1/ The products in the CEPT Scheme include vegetable oils, cement, chemicals, pharmaceuticals, fertilizer, plastics, rubber products, leather products, pulp, textiles, ceramic and glass products, gems and jewellery, copper cathodes, electronics, and wooded and rattan furniture.

2/ One urea project in Indonesia and one in Malaysia, a copper fabrication project in the Philippines and a potash mining project in Thailand are projects reported under the AIP Scheme.

3/ See UNCTAD, "Review of developments in the area of trade and monetary and financial cooperation" (TD/B/C.7/92) 1989.

4/ Source: ASEAN Handbook 1990.

5/ See First Meeting of the 12th Asean Standing Committee, Jakarta, 14 September 1976.

6/ Source: ASEAN Selected Statistics 1982-1988 (Tables 6.3.3 and 6.3.6), The ASEAN Secretariat, Jakarta, April 1990.

7/ Idem.